



Legislative Audit Division

State of Montana

Report to the Legislature

October 2005

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Labor and Industry

This report contains six recommendations to the Department of Labor and Industry. Issues addressed in the report include:

- **Controls over receipts and deposits**
- **Compliance with state laws**
- **Compliance related to management of federal cash**
- **Uninsured Employers Fund accounts receivable**
- **Compliance with purchasing regulations**

**Direct comments/inquiries to:
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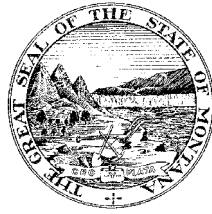
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October 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Labor and Industry for the two fiscal years ended June 30, 2005. Included in this report are issues related to controls over receipts and deposits, compliance with state laws, Uninsured Employers Fund accounts receivable, Cash Management Improvement Act compliance, and compliance with purchasing regulations.

We thank the Commissioner and department staff for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Department of Labor and Industry

Members of the audit staff involved in this audit were Pearl M. Allen,
Jeane Carstensen-Garrett, Danielle Gamradt, and Jim Manning.

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Appointed and Administrative Officials

Department of Labor and Industry

Keith Kelly	Commissioner
Dore Schwinden	Deputy Commissioner
Jim Brown	Administrator Business Standards Division
Jerry Keck	Administrator Employment Relations Division
Ingrid Childress	Administrator Workforce Services Division
Tammy Peterson	Administrator Centralized Services Division
Roy Mulvaney	Administrator Unemployment Insurance Division
James Shea	Judge Workers' Compensation Court
Margaret MacDonald	Administrator Office of Community Services

For additional information concerning the Department of Labor and Industry, contact:

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Centralized Services Division
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Department of Labor and Industry

This report documents six issues noted during our financial-compliance audit of the Department of Labor and Industry (department) for the two fiscal years ended June 30, 2005. The previous audit report contained five recommendations. The department implemented all five recommendations.

We issued an unqualified opinion on the financial schedules presented in this report. This means the reader can rely on the presented financial information and the supporting detailed information on the primary accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department establish procedures to:

- A. Ensure all collections are immediately logged in an appropriate receipt log.
- B. Periodically reconcile the receipt log to deposit information.
- C. Ensure collections are deposited in a timely manner as required by state law. 9

Department Response: Concur. See page B-4.

Recommendation #2

We recommend the department monitor documentation to ensure all licenses printed are tied to a receipt or documentation exists of why a license was printed without a payment..... 9

Department Response: Concur. See page B-4.

Recommendation #3

We recommend the department:

- A. Comply with the state laws noted above.
- B. If necessary, seek legislation to amend the laws..... 12

Department Response: Concur. See page B-4.

Report Summary

Recommendation #4

We recommend the department:

- A. Continue to work with Department of Administration personnel to ensure the Cash Management Improvement Act agreement terms are reasonable for the department's federal programs included in the agreement.
- B. Comply with the terms of the Cash Management Improvement Act agreement. 13

Department Response: Concur. See page B-5.

Recommendation #5

We recommend the department follow and periodically re-evaluate policy to ensure reasonableness of the net receivable for the Uninsured Employee Fund..... 15

Department Response: Concur. See page B-5.

Recommendation #6

We recommend the department comply with department and state purchasing rules and regulations for all applicable purchases. 16

Department Response: Concur. See page B-5.

Introduction

Introduction

We performed a financial-compliance audit of the Department of Labor and Industry (department) for the two fiscal years ended June 30, 2005. The objectives of the audit were to:

1. Determine department compliance with applicable laws and regulations.
2. Make recommendations for improvements in the management and internal controls of the department.
3. Determine if the financial schedules present fairly the results of operations of the department for each of the two fiscal years ended June 30, 2005, and June 30, 2004.
4. Determine the implementation status of prior audit recommendations.

This report contains six recommendations to the department. In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we analyzed the reasonableness of Internal Service Fund rates charged and fund equity balances at the department. The statute requires fees and charges for services be based upon commensurate costs. We found the rates were commensurate with costs for the activities in the Internal Service Fund in fiscal years 2004 and 2005.

Background

The Department of Labor and Industry operates as part of a national employment, unemployment insurance benefits, and training system that assists individuals in preparing for and finding jobs. The department assists employers in finding workers and pays workers unemployment benefits if they are temporarily unemployed through no fault of their own.

Introduction

The department enforces state and federal labor, state wage and hour, workers' compensation, discrimination, and state and federal health-safety laws. In addition, the department conducts research, collects statistics, and provides adjudicative services in labor-management disputes. The department also administers building codes enforcement, weights and measures, and professional and occupational licensing.

The department is organized into five divisions, 37 administratively attached units, and the Commissioner's Office. A brief description of the divisions and administratively attached units with their Full Time Equivalent (FTE) follows:

Commissioner's Office, Office of Legal Services and Office of Human Resources (27 FTE) - The Commissioner's Office provides administrative and support services to the department. It is responsible for the overall administration of the department, including direction and program focus. The Office of Legal Services provides legal services for the department and administratively attached boards and commissions. The Office of Human Resources provides personnel-related services to the department.

Centralized Services Division (40.5 FTE) - Centralized Services provides central services including payroll, accounting, purchasing, budgeting, and computer and general services. It provides administrative hearing and dispute resolution services.

Employment Relations Division (116.5 FTE) - Employment Relations administers and enforces federal and state statutes related to wage and hours, labor relations, workers' compensation, workplace safety, contractor registration, and human rights. In addition, both the Board of Personnel Appeals and Human Rights Commission, which are administratively attached to the department, are part of this division.

Unemployment Insurance Division (150.5 FTE) - Unemployment Insurance administers the state's unemployment insurance laws and

related federal programs. The division operates through the Contributions, Benefits, Program Support, and Claims Processing Bureaus. The Board of Labor Appeals that is administratively attached to the department is part of this division.

Workforce Services Division (304.2 FTE) - Workforce Services administers and operates employment, training, and re-training programs including the local job service offices. It collects, analyzes, and disseminates employment statistics, provides services to veterans and dislocated workers, and offers trade adjustment assistance to individuals affected by the North American Free Trade Agreement.

Business Standards Division (138.03 FTE) - Business Standards oversees professional and occupational licensing, weights and measures, and building codes administration. Thirty-three licensing boards that are administratively attached to the department are part of this division. Table 1 following this section provides the name of each licensing board.

Administratively attached units include:

Workers' Compensation Court (5 FTE) - The court provides a legal forum for Montana's employees and the insurance industry to resolve disputes arising out of work-related injuries and occupational disease.

Office of Community Services (4 FTE) – The office provides administration of the federal Corporation for National Service programs (Ameri Corps and Campus Corps) and community service and volunteer efforts statewide.

Introduction

Table 1

Business Standards Division

Board of Private Alternative Adolescent Residential
Board of Barbers and Cosmetologists
Board of Sanitarians
Board of Public Accountants
Board of Realty Regulation
Board of Real Estate Appraisers
Board of Architects
Board of Landscape Architects
Board of Professional Engineers and Professional Land Surveyors
State Electrical Board
Board of Plumbers
Board of Athletics
Board of Outfitters
Board of Private Security Patrol Officers and Investigators
Alternative Health Care Board
Board of Medical Examiners
Board of Dentistry
Board of Pharmacy
Board of Nursing
Board of Nursing Home Administrators
Board of Optometry
Board of Chiropractors
Board of Radiologic Technologists
Board of Speech-Language Pathologists and Audiologists
Board of Hearing Aid Dispensers
Board of Psychologists
Board of Veterinary Medicine
Board of Funeral Service
Board of Social Work Examiners and Professional Counselors
Board of Physical Therapy Examiners
Board of Occupations Therapy Practice
Board of Respiratory Care Practitioners
Board of Clinical Laboratory Science Practitioners

Source: Department of Labor and Industry report.

Unemployment Insurance

The department administers the state's unemployment insurance fund. The state law that establishes the fund coordinates with federal unemployment law. State law sets the methodology for calculating

employer premiums, determining unemployment benefits, and maintaining funds to finance the program. Unemployment Insurance (UI) activity is recorded on the state's accounting records in the Enterprise Fund.

State law in effect for fiscal 2003-04 required the department to delegate responsibility for the tax collection area of the UI program to the Department of Revenue. However, as required by Senate Bill 271 of the 2003 Legislature, this delegation was reversed June 30, 2004. As a result, beginning in 2004-05, the department rates the loss experience of employers, calculates employer's premiums, and bills and collects employer premiums.

State law directs deposit of unemployment insurance premiums in a bank account called the "clearing account," and the subsequent transfer of the collections to Montana's Unemployment Trust Fund account in the United States Treasury. To pay unemployment benefits, the department draws funds from the state's account in the U.S. Treasury and deposits the funds in another bank account called the "benefits account." Unemployment benefits are paid from this account. In addition to paying benefits for employees of covered employers, the department also pays benefits to qualifying former employees of federal and military organizations. The department bills the federal government for these benefits and receives reimbursement to the state's account in the Unemployment Trust Fund. The federal government also provides grant funds to defray costs of administering the unemployment insurance program. The amounts available for administration are determined on a formula basis and spent as appropriated by the legislature.

In addition to the unemployment activity in the Enterprise Fund, section 39-51-404(4), MCA, sets an assessment on taxable wages paid by employers for administrative expenses. The assessments are deposited in the employment security account in the State Special Revenue Fund and are appropriated by the legislature to finance various employment-related programs.

Introduction

Prior Audit Recommendations

The prior financial-compliance audit of the Department of Labor and Industry for the fiscal year ended June 30, 2003, contained five recommendations. The department implemented all five recommendations.

Findings and Recommendations

Controls and Compliance

The following report sections discuss issues in which we believe the implementation of additional management and internal controls may have prevented or detected on a more timely basis the non-compliance with state laws and regulations. These issues relate to receipts, deposits, and printing licenses. Other issues in the report relate to compliance with state law, Cash Management Improvement Act (CMIA), and compliance with state purchasing laws and regulations.

Controls Over Receipts, Timely Deposits, and Licenses

The department does not have adequate controls to ensure receipts are safeguarded and deposits are made in accordance with state law.

The Business Standards Division (BSD) has two professional and occupational licensing bureaus: Health Care (HCLB) and Business & Occupational (BOLB). We reviewed controls over collections and deposits at HCLB and BOLB and found that controls should be improved at both bureaus to ensure the safekeeping of collections, and compliance with state deposit law, and printing of licenses.

State policy, as well as department policy, requires the establishment and maintenance of internal controls over all collections and deposits. An effective system of control will provide reasonable assurance that the procedures for collections and deposits have been performed properly.

Receipt Log

During our review we found neither bureau prepares a receipt log to establish accountability over collections immediately upon receipt, as required by state and department policy. A receipt log is an important control because it provides accountability over collections from time of initial receipt to deposit. A log should be used to monitor the timeliness of deposits, and reconcile receipts to deposits. Discussed below is a situation that occurred because a receipt log was not reconciled to deposits.

Findings and Recommendations

The department identified four instances in late 2004 and early 2005 in which an employee had unlogged checks totaling over \$4,500 in her desk. The checks were not in a locked drawer and were not restrictively endorsed. Subsequent review by department personnel identified no instances of missing checks. However, without the receipt log as discussed earlier, management cannot monitor receipts and deposits and similar instances may not be detected in a timely manner.

Timely Deposits

Due to a reorganization that took place in December 2003, HCLB did not deposit receipts in a timely manner as required by state law. State law requires that deposits be made when accumulated amount of currency and coin exceeds \$100, when total collections exceed \$500, and at least weekly. When the HCLB application specialists receive cash/checks in the mail they apply this deposit criteria on a board-by-board basis, rather than for the bureau. According to HCLB procedures, in all cases, deposits are prepared on Friday of every week. We reviewed one weekly deposit and noted that, for the bureau, the total receipts exceeded the \$500 required by law on Monday, Wednesday, Thursday, and Friday, yet no deposit was prepared until Friday. The amount of the accumulated receipts on Friday was \$6,180.

Both bureaus have recently reorganized with much attention to centralizing many functions; including the collections process and preparation of deposits. The reorganization has improved controls; however, we believe continued improvement is feasible and necessary to ensure collections are adequately safeguarded and deposited timely in accordance with state deposit law. Since these issues were brought to the attention of HCLB officials, new control procedures have been implemented to address the concerns, including daily deposits.

Findings and Recommendations

Recommendation #1

We recommend the department establish procedures to:

- A. Ensure all collections are immediately logged in an appropriate receipt log.**
- B. Periodically reconcile the receipt log to deposit information.**
- C. Ensure collections are deposited in a timely manner as required by state law.**

Controls Over Printing Licenses

The Health Care and Business & Occupational licensing bureaus do not review/reconcile printed licenses to receipts.

In both bureaus the application specialists have the ability to print licenses without payment documentation. No review is performed to ensure that all licenses printed were paid for or documentation to explain why no payment was received. The absence of a control relating to printing licenses places the specialists in a position where they could potentially take the money received with a application and be able to send the licensee a license, or print a license without receipt of the payment. In most cases, the need to print a license is in conjunction with payment for that license; however, in some cases duplicate licenses are printed when a licensee loses their original license. A review/reconciliation of all printed licensees to deposits would identify for follow-up those instances in which a license was printed without the corresponding payment.

Recommendation #2

We recommend the department monitor documentation to ensure all licenses printed are tied to a receipt or documentation exists of why a license was printed without a payment.

Findings and Recommendations

State Compliance

We identified six instances of non-compliance with state law.

During the audit of the department, we tested the department's compliance with laws related to the department and the administratively attached licensing boards and programs. We tested the department's compliance with approximately 275 laws at the Business Standards Division. Our prior audit report contained two recommendations related to implementing procedures to ensure compliance with laws, and to ensure boards and licensing programs adopt administrative rules as required by state law. Comparing the number and significance of issues between the audits we concluded the department has fully implemented the recommendations and significantly improved overall compliance.

Below are compliance issues that we identified this audit. In each instance we believe the department should either comply with the law, or if necessary, seek legislation to amend the laws as written.

- ▶ The department is not in compliance with state law related to petroleum dealer license expiration dates. The law states that if a device is transferred between owners and remains in the same location the license transfers to the new owner until the following December 31. Department personnel said they are currently not in compliance because the petroleum dealer license is under the One-Stop licensing program at Department of Revenue, which issues a new license when ownership changes. The One-Stop licensing program is a centralized licensing function designed to minimize the number of agencies a business must work with for state licenses, fees, and permits. Department personnel indicated One-Stop does not have provisions for a license to transfer and be up for renewal on December 31. Department personnel indicated they are working to change the statute in the next legislative session.
- ▶ State law requires the Alternative Health Care Board adopt rules to implement the provisions of state law relating to professional licenses for activated military reservists. Currently no rules have been established by the board. Board personnel indicated they believe state law provides clear guidance on how to handle the situation, but are working to either adopt a full rule or will do a rule that references the statute.

Findings and Recommendations

- ▶ State law requires a person requesting an Alternative Health Care Naturopath license that has not passed a licensure exam apply to the board for authorization to take the licensure exam and to send the exam fee with the application. The department is not in compliance because the board uses a national testing service that qualifies the candidates for the exam and accepts exam fees directly from the candidates.
- ▶ Rules adopted by the Board of Athletics for managers do not address the revocation and suspension of licenses or the qualifications related to experience, integrity, and knowledge, as required by state law. Department personnel stated that since they have statutory authority regarding revocation and suspension of licensure, they do not believe rules are necessary. In addition, department personnel indicated that rules are not necessary to address experience and knowledge because they are not factors in becoming licensed.
- ▶ State law requires that the \$500 fee paid by outfitters for a net client hunter use expansion be allocated between the board and the Department of Fish, Wildlife and Parks (FWP). The law states the allocation of the fee is first to FWP to cover the department's administrative expenses that exceed the revenue generated by an annual fee for each client served and the remaining amount to the Board of Outfitters. Department personnel indicated that currently the \$500 fee is split equally between FWP and the board. Fiscal year 2004-05 was the first time the \$500 fee was collected since the law was enacted in 1999. Department personnel indicated it is not practical to determine the FWP's administration costs necessary for the allocation required by the law and are planning on proposing legislation to change the statute to split the funds equally between the department and FWP.
- ▶ State law requires that the state treasurer shall give a separate and additional bond conditioned upon the faithful performance of the treasurer's duties in connection with the unemployment insurance administration account in an amount to be fixed by the department and in a form prescribed by law or approved by the attorney general. Department personnel indicated that no such bond has existed for several years and believe, through discussion with Department of Administration personnel, that bonds that already exist on state employees through Tort Claims are adequate. Department personnel indicated they will propose legislation to remove this section in the law.

Findings and Recommendations

Recommendation #3

We recommend the department:

- A. Comply with the state laws noted above.**
- B. If necessary, seek legislation to amend the laws.**

Compliance with Cash Management Improvement Act (CMIA)

The department was not in compliance with several requirements of the Cash Management Improvement Act during the audit period.

The Department of Administration enters into an agreement with the Department of Treasury to implement the regulations required by the federal CMIA of 1990. Under the agreement, certain federal programs for the state that exceed a calculated threshold are required to request cash to fund their program in accordance with the requirements in the agreement.

During the audit period the situations discussed below occurred in which the department was not in compliance with the CMIA agreement.

- ▶ In fiscal year 2004, the department used a 15-day estimated clearance pattern for the State Unemployment Insurance benefit payments although the agreement required the department to use a 4-day average clearance pattern.
- ▶ In fiscal year 2004, the department used a fixed interval weekly draw pattern for the Employment Services direct administration costs paid by warrants, although the CMIA required an actual clearance pattern. The actual clearance pattern was used for payments made through electronic fund transfer.
- ▶ In fiscal year 2005, the department used a 15-day clearance pattern for the Unemployment Insurance benefits even though the agreement required a 20-day pattern.

All of the instances noted above resulted from changes made to the fiscal year 2004 or 2005 CMIA agreements from the requirements in the 2003 CMIA agreement. According to department personnel, no changes occurred in the federal programs to warrant any of the changes in the agreement, so they did not change their procedures for

Findings and Recommendations

drawing cash. Department personnel also indicated that the draw patterns in question were unworkable. We reviewed written communication dated December 2003 written by department personnel to Department of Administration personnel expressing their concern with the fiscal year 2004 agreement and requesting a meeting to discuss the changes. Department of Administration personnel agreed the changes were made in error, but it was too late to submit an amended agreement for fiscal year 2004. The fiscal year 2005 amended CMIA agreement, approved in September 2005 by the Department of Treasury, addressed all but the one 2005 issue included above. Regardless of the problems with the CMIA agreement, the department and state are required by federal regulation to follow the terms as specified in the CMIA agreement.

As a result, the department and the state are not in compliance with the CMIA agreements. In addition, an interest liability may exist for the difference between the clearance patterns used and those required by the CMIA because the Department of Administration must report yearly to the Department of Treasury any interest owed for federal programs that do not comply with the agreement.

Recommendation #4

We recommend the department:

- A. Continue to work with Department of Administration personnel to ensure the Cash Management Improvement Act agreement terms are reasonable for the department's federal programs included in the agreement.**
- B. Comply with the terms of the Cash Management Improvement Act agreement.**

Findings and Recommendations

Uninsured Employers Fund

Lack of procedures has resulted in misstatements in accounts receivable in the Uninsured Employers Fund.

The department operates the Uninsured Employers Fund to pay the wage and medical claims of injured workers whose employers did not carry workers' compensation insurance. The department bills the employers for benefits and medical claims paid and for fines assessed for uninsured periods. The total amount owed by employers should be recorded as accounts receivable on the accounting records and an estimate of the amounts included in the receivable that may not be collectible should be recorded as an allowance for uncollectible accounts. The net receivable is the total receivable less the allowance for uncollectible accounts.

During the first eighteen months of the audit period, the department did not have adequate procedures to ensure the net accounts receivable recorded on the accounting records for this activity was reasonable. We also found the department did not have policies and procedures to ensure, after all reasonable attempts to collect accounts were made, the accounts were transferred to the Department of Revenue or to an outside collection agency for additional collection procedures as required by state policy.

Below are the problems we found with the net receivables recorded on the accounting system at June 30, 2004:

- ▶ Approximately \$3.4 million of receivables related to periods before fiscal year 2001-02 were not recorded on the accounting records until September 2004 (fiscal year 2004-05).
- ▶ The data used to estimate a collection rate was not complete because it did not include the accounts receivable of \$3.4 million discussed above and omitted data on medical and benefit collections.
- ▶ There was no consideration of whether the age of accounts was a relevant factor when determining the allowance for uncollectible accounts.
- ▶ No accounts were removed from the accounting records because no review was done to identify those accounts that were not collectable.

Findings and Recommendations

- ▶ The estimated collection rate discussed above was applied against accounts receivable recorded at December rather than the fiscal year end balances.

As a result of the issues identified above, we believe the net account receivable balance of \$3,303,301 is misstated at June 30, 2004. It was not practical for us to determine the actual misstatement; however, department personnel indicated, and we agreed, that the net receivable is mostly likely overstated. After this issue was brought to the attention of department personnel, the department put forth significant effort to establish policies and perform procedures to ensure the net receivable recorded at June 30, 2005 was reasonable. The net receivable decreased from \$4,265,360 recorded at May 31, 2005 to \$2,358,537 recorded at June 30, 2005 as a result of these efforts. Based on our review, we believe the net receivable amount recorded at June 30, 2005 was a much better estimate.

To ensure the reasonableness of the net receivable in future years the department needs to continue to follow established policy and re-evaluate that policy as more account collection data is available. In addition, the policy should include consideration of when receivables should be referred to either Department of Revenue or an outside collection agency for additional collection efforts, as required by state policy.

Recommendation #5

We recommend the department follow and periodically re-evaluate policy to ensure reasonableness of the net receivable for the Uninsured Employee Fund.

Compliance with Purchasing Regulations

The department did not comply with state and department purchasing regulations resulting in unallowable federal expenditures.

Federal regulations require states use the same policies and procedures for procurements using Federal funds as for procurement from non-Federal funds. We found the department did not follow

Findings and Recommendations

department and state purchasing regulations for the item discussed below.

Between June 2003 and November 2003 the department paid one vendor \$31,416 for printing services on thirty-six separate invoices from Employment Services federal funds. Department and state purchasing policy require that all printing services, with the exception of business cards, go through Department of Administration's Procurement and Printing Division. Department personnel had already determined these payments were not in compliance with department and state purchasing regulations. Department personnel indicated that since the cost was over \$25,000, the project should have gone through competitive procedures. Since discovery of this issue, the department has provided training to department personnel on purchasing regulations and is considering adding control procedures that would detect and/or prevent similar situations in the future.

Because state purchasing regulations were not followed, we question the allowability of these costs from federal funds.

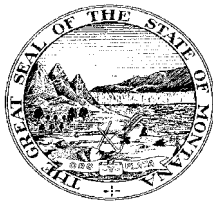
Recommendation #6

We recommend the department comply with department and state purchasing rules and regulations for all applicable purchases.

Independent Auditor's Report & Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
Of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Labor and Industry for each of the fiscal years ended June 30, 2005, and 2004. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances & property held in trust of the Department of Labor and Industry for each of the fiscal years ended June 30, 2005, and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 9, 2005

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2004	\$ 40,007	\$ 22,761,350	\$ (439,237)	\$ 186,680,674	\$ 217,337		\$ 3,411,653
PROPERTY HELD IN TRUST: July 1, 2004						\$ 0	
ADDITIONS							
Budgeted Revenues & Transfers-In	31,841	31,773,981	33,093,197	95,323,902	4,955,731		
NonBudgeted Revenues & Transfers-In	511	236,217	2,249,155	1,170			1,238,000
Prior Year Revenues & Transfers-In Adjustments		(566,909)	664,618	(67,985)	6,059		
Direct Entries to Fund Balance	1,079,708	766,284	2,045,597	3,931,482	93		(7,653)
Additions to Property Held in Trust						33,966	
Total Additions	<u>1,112,060</u>	<u>32,209,573</u>	<u>38,052,567</u>	<u>99,188,569</u>	<u>4,961,883</u>	<u>33,966</u>	<u>1,230,347</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	1,182,635	30,377,243	35,230,129	75,000,670	4,943,781		
NonBudgeted Expenditures & Transfers-Out	3	533,661	2,245,417	3,803,559	(62,184)		
Prior Year Expenditures & Transfers-Out Adjustments	(5)	(113,311)	132,815	647,050	32,950		
Reductions in Property Held in Trust						26,915	
Total Reductions	<u>1,182,633</u>	<u>30,797,593</u>	<u>37,608,361</u>	<u>79,451,279</u>	<u>4,914,547</u>	<u>26,915</u>	
FUND BALANCE: June 30, 2005	\$ (30,566)	\$ 24,173,330	\$ 4,969	\$ 206,417,964	\$ 264,673		\$ 4,642,000
PROPERTY HELD IN TRUST: June 30, 2005						\$ 7,051	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2003	\$ 21,305	\$ 17,676,394	\$ 833,618	\$ 189,646,628	\$ 245,408		\$ 0
PROPERTY HELD IN TRUST: July 1, 2003						\$ 12,000	
ADDITIONS							
Budgeted Revenues & Transfers-In	41,201	25,952,180	41,251,935	95,449,384	4,539,401		
NonBudgeted Revenues & Transfers-In	125	303,699	5,892	672	119		193,273
Prior Year Revenues & Transfers-In Adjustments		(72,968)	(1,316,590)	182	829		165,822
Cash Transfers In(Out)							
Direct Entries to Fund Balance	1,134,542	7,435,812	(2,351,123)	(561,656)	(2)		3,420,192
Additions to Property Held in Trust						596	
Total Additions	<u>1,175,868</u>	<u>33,618,723</u>	<u>37,590,114</u>	<u>94,888,582</u>	<u>4,540,347</u>	<u>596</u>	<u>3,779,287</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	1,155,525	28,434,226	38,712,706	97,874,935	4,505,468		
NonBudgeted Expenditures & Transfers-Out		243,920		2,137	482,075		202,523
Prior Year Expenditures & Transfers-Out Adjustments	1,641	(144,379)	150,263	(22,536)	(419,125)		165,111
Reductions in Property Held in Trust						12,596	
Total Reductions	<u>1,157,166</u>	<u>28,533,767</u>	<u>38,862,969</u>	<u>97,854,536</u>	<u>4,568,418</u>	<u>12,596</u>	<u>367,634</u>
FUND BALANCE: June 30, 2004	\$ 40,007	\$ 22,761,350	\$ (439,237)	\$ 186,680,674	\$ 217,337		\$ 3,411,653
PROPERTY HELD IN TRUST: June 30, 2004						\$ 0	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	TOTAL
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits		\$ 6,720,889					\$ 6,720,889
Taxes	\$ 511	9,777	\$ 4,383				14,671
Charges for Services		11,367,477	58	\$ 318,517	\$ 3,873,313		15,559,365
Investment Earnings	9	173,457		10,998,507			11,171,973
Fines, Forfeits and Settlements	31,832	101,360	(1,722,806)	454			(1,589,160)
Sale of Documents, Merchandise and Property		17,379		129,038			146,417
Rentals, Leases and Royalties		41,271					41,271
Contributions and Premiums		7,743,652		73,482,910			81,226,562
Miscellaneous				2,506,402			2,506,402
Grants, Contracts, Donations and Abandonments		5,191,779	24,382			\$ 1,238,000	6,454,161
Other Financing Sources		76,248	5,626,955				5,703,203
Federal			32,073,998	7,821,259			39,895,257
Federal Indirect Cost Recoveries					1,088,477		1,088,477
Total Revenues & Transfers-In	32,352	31,443,289	36,006,970	95,257,087	4,961,790	1,238,000	168,939,488
Less: Nonbudgeted Revenues & Transfers-In	511	236,217	2,249,155	1,170		1,238,000	3,725,053
Prior Year Revenues & Transfers-In Adjustments		(566,909)	664,618	(67,985)	6,059		35,783
Actual Budgeted Revenues & Transfers-In	31,841	31,773,981	33,093,197	95,323,902	4,955,731	0	165,178,652
Estimated Revenues & Transfers-In	48,080	33,520,626	39,876,127	84,246,684	5,226,810		162,918,327
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (16,239)	\$ (1,746,645)	\$ (6,782,930)	\$ 11,077,218	\$ (271,079)	\$ 0	\$ 2,260,325
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		\$ (607,306)					\$ (607,306)
Taxes		(151,198)					(151,198)
Charges for Services		588,619		\$ 126,634	\$ 512,381		1,227,634
Investment Earnings	\$ (21)	71,431		(5,778,774)			(5,707,364)
Fines, Forfeits and Settlements	(16,218)	(1,262,549)	\$ (2,083,806)	(196)			(3,362,769)
Sale of Documents, Merchandise and Property		4,889		(48,885)			(43,996)
Rentals, Leases and Royalties		(63,440)					(63,440)
Contributions and Premiums		230,395		11,482,910			11,713,305
Miscellaneous				2,106,402			2,106,402
Grants, Contracts, Donations and Abandonments		(512,586)	862				(511,724)
Other Financing Sources		(44,900)	(771,348)				(816,248)
Federal			(3,928,638)	3,189,127			(739,511)
Federal Indirect Cost Recoveries					(783,460)		(783,460)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (16,239)	\$ (1,746,645)	\$ (6,782,930)	\$ 11,077,218	\$ (271,079)	\$ 0	\$ 2,260,325

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits		\$ 6,479,296					\$ 6,479,296
Taxes	\$ 125	9,438	\$ 5,997	\$ 4	\$ 119		15,683
Charges for Services		12,344,114	(58)	72,075	3,571,980		15,988,111
Investment Earnings	29	55,469		11,350,563			11,406,061
Fines, Forfeits and Settlements	41,172	2,444,358	88,024	334			2,573,888
Sale of Documents, Merchandise and Property		21,044		127,819			148,863
Rentals, Leases and Royalties		26,183					26,183
Contributions and Premiums		50,000		66,982,684			67,032,684
Miscellaneous				2,386,280			2,386,280
Grants, Contracts, Donations and Abandonments		4,655,283	94,340			\$ 359,095	5,108,718
Other Financing Sources		97,726	3,647,012				3,744,738
Federal			36,105,922	14,530,479			50,636,401
Federal Indirect Cost Recoveries					968,250		968,250
Total Revenues & Transfers-In	41,326	26,182,911	39,941,237	95,450,238	4,540,349	359,095	166,515,156
Less: Nonbudgeted Revenues & Transfers-In	125	303,699	5,892	672	119	193,273	503,780
Prior Year Revenues & Transfers-In Adjustments		(72,968)	(1,316,590)	182	829	165,822	(1,222,725)
Actual Budgeted Revenues & Transfers-In	41,201	25,952,180	41,251,935	95,449,384	4,539,401	0	167,234,101
Estimated Revenues & Transfers-In	81,430	24,137,379	41,885,678	94,345,871	5,548,916		165,999,274
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (40,229)	\$ 1,814,801	\$ (633,743)	\$ 1,103,513	\$ (1,009,515)	\$ 0	\$ 1,234,827
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		\$ (324,428)					\$ (324,428)
Taxes		(151,198)					(151,198)
Charges for Services		1,977,217		\$ 71,857	\$ (107,189)		1,941,885
Investment Earnings	\$ (0)	(122,038)		(5,617,692)			(5,739,730)
Fines, Forfeits and Settlements	(40,229)	1,049,058	\$ (11,976)	(1,666)			995,187
Sale of Documents, Merchandise and Property		8,554		(198,429)			(189,875)
Rentals, Leases and Royalties		370			(985)		(615)
Contributions and Premiums				4,982,684			4,982,684
Miscellaneous				1,836,280			1,836,280
Grants, Contracts, Donations and Abandonments		(547,527)	66,684				(480,843)
Other Financing Sources		(75,207)	(733,571)		(345)		(809,123)
Federal			45,120	30,479			75,599
Federal Indirect Cost Recoveries					(900,996)		(900,996)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (40,229)	\$ 1,814,801	\$ (633,743)	\$ 1,103,513	\$ (1,009,515)	\$ 0	\$ 1,234,827

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	BUSINESS STANDARDS DIVISION	COMMISSIONER'S OFFICE/CSD	EMPLOYMENT RELATIONS DIVISION	OFFICE OF COMMUNITY SERVICES	UNEMPLOYMENT INSURANCE DIVISION	WORK FORCE SERVICES DIVISION	WORKERS COMPENSATION COURT	TOTAL
Personal Services								
Salaries	\$ 4,844,645	\$ 2,669,569	\$ 4,089,069	\$ 112,167	\$ 4,851,328	\$ 10,778,010	\$ 273,885	\$ 27,618,673
Other Compensation	104,975		4,100		8,150	1,109		118,334
Employee Benefits	1,556,539	734,296	1,272,941	39,783	1,635,744	3,643,474	72,461	8,955,238
Personal Services-Other	(15,783)	(58,560)				(123)		(74,466)
Total	6,490,376	3,345,305	5,366,110	151,950	6,495,222	14,422,470	346,346	36,617,779
Operating Expenses								
Other Services	1,175,233	217,370	810,359	32,292	2,260,909	2,005,826	24,439	6,526,428
Supplies & Materials	398,825	121,621	225,989	3,198	237,081	687,740	11,862	1,686,316
Communications	386,992	60,947	230,053	5,608	414,762	392,814	6,688	1,497,864
Travel	563,431	45,003	172,118	27,293	114,188	379,017	7,318	1,308,368
Rent	332,473	202,854	436,553	10,940	226,526	690,691	24,170	1,924,207
Utilities	3,615	14	7,356		24,696	132,131	3,366	171,178
Repair & Maintenance	85,934	21,033	18,470	636	63,410	287,785	2,590	479,858
Other Expenses	3,122,132	233,067	541,586	112,942	3,994,435	1,321,448	27,771	9,353,381
Goods Purchased For Resale	12,190							12,190
Total	6,080,825	901,909	2,442,484	192,909	7,336,007	5,897,452	108,204	22,959,790
Equipment & Intangible Assets								
Equipment	160,236		13,618			86,688	5,849	266,391
Capital Leases-Equipment-Nonbu					11,325			11,325
Total	160,236		13,618		11,325	86,688	5,849	277,716
Grants								
From State Sources	7,191					173,699		180,890
From Federal Sources				2,824,156		11,142,298		13,966,454
From Other Sources						142,000		142,000
Total	7,191			2,824,156		11,457,997		14,289,344
Benefits & Claims								
To Individuals			1,261,893		71,789,368			73,051,261
From State Sources			119,789					119,789
From Federal Sources					(3,548)			(3,548)
Insurance Payments			301,485					301,485
Total			1,683,167		71,785,820			73,468,987
Transfers								
Accounting Entity Transfers	57,867		30,729		5,612,750			5,701,346
Mandatory Transfers					466,032	169,644		635,676
Total	57,867		30,729		6,078,782	169,644		6,337,022
Debt Service								
Capital Leases					3,775			3,775
Total					3,775			3,775
Total Expenditures & Transfers-Out	\$ 12,796,495	\$ 4,247,214	\$ 9,536,108	\$ 3,169,015	\$ 91,710,931	\$ 32,034,251	\$ 460,399	\$ 153,954,413
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund		\$ 117,869	\$ 653,605	\$ 23,485		\$ 387,674		\$ 1,182,633
State Special Revenue Fund	\$ 10,833,411	764,332	7,572,041	111,492	\$ 665,351	10,390,567	\$ 460,399	\$ 30,797,593
Federal Special Revenue Fund		413,550	643,974	3,034,038	12,375,364	21,141,435		37,608,361
Enterprise Fund			666,488		78,670,216	114,575		79,451,279
Internal Service Fund	1,963,084	2,951,463						4,914,547
Total Expenditures & Transfers-Out	12,796,495	4,247,214	9,536,108	3,169,015	91,710,931	32,034,251	460,399	153,954,413
Less: Nonbudgeted Expenditures & Transfers-Out	48,005	(52,321)	482,804	110,749	5,747,620	183,599		6,520,456
Prior Year Expenditures & Transfers-Out Adjustments	122,778	1,016	14,164	122,211	635,485	(196,324)	168	699,498
Actual Budgeted Expenditures & Transfers-Out	12,625,712	4,298,519	9,039,140	2,936,055	85,327,826	32,046,976	460,231	146,734,459
Budget Authority	13,005,805	5,604,367	9,455,767	2,942,415	102,378,789	40,078,243	465,983	173,931,369
Unspent Budget Authority	\$ 380,093	\$ 1,305,848	\$ 416,627	\$ 6,360	\$ 17,050,963	\$ 8,031,267	\$ 5,752	\$ 27,196,910
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund		\$ 163	\$ 10,758			\$ 4,853		\$ 15,774
State Special Revenue Fund	\$ 343,453	261,972	221,592		\$ 12	636,432	\$ 5,752	\$ 1,469,213
Federal Special Revenue Fund		917,537	86,554	\$ 6,360	7,680,349	7,326,743		16,017,543
Capital Projects Fund					91,665			91,665
Enterprise Fund			97,723		9,278,937	63,216		9,439,876
Internal Service Fund	36,640	126,176				23		162,839
Unspent Budget Authority	\$ 380,093	\$ 1,305,848	\$ 416,627	\$ 6,360	\$ 17,050,963	\$ 8,031,267	\$ 5,752	\$ 27,196,910

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	BUSINESS STANDARDS DIVISION	COMMISSIONER'S OFFICE/CSD	EMPLOYMENT RELATIONS DIVISION	OFFICE OF COMMUNITY SERVICE	UNEMPLOYMENT INSURANCE DIVISION	WORK FORCE SERVICES DIVISION	WORKERS COMPENSATION COURT	TOTAL
Personal Services								
Salaries	\$ 4,360,535	\$ 2,387,080	\$ 4,061,604	\$ 120,659	\$ 3,925,941	\$ 10,910,533	\$ 258,747	\$ 26,025,099
Other Compensation	95,940		4,850	25	8,050	1,671		110,536
Employee Benefits	1,339,631	663,852	1,204,907	39,208	1,220,506	3,494,479	65,504	8,028,087
Personal Services-Other	244,818	(186,463)				(1,482)		56,873
Total	6,040,924	2,864,469	5,271,361	159,892	5,154,497	14,405,201	324,251	34,220,595
Operating Expenses								
Other Services	1,080,282	156,631	727,489	24,258	2,456,497	1,961,749	26,956	6,433,862
Supplies & Materials	445,142	167,565	193,760	3,772	356,840	908,804	12,438	2,088,321
Communications	372,013	70,591	190,574	4,325	504,752	433,210	5,631	1,581,096
Travel	518,116	42,169	167,262	30,083	80,316	420,040	9,433	1,267,419
Rent	310,441	195,471	430,466	10,497	136,669	679,503	23,291	1,786,338
Utilities	2,606		7,095		19,157	137,933	2,941	169,732
Repair & Maintenance	157,897	21,256	18,371	591	79,327	443,456	2,919	723,817
Other Expenses	2,939,370	190,087	657,493	33,843	480,382	1,426,337	27,176	5,754,688
Goods Purchased For Resale	15,378							15,378
Total	5,841,245	843,770	2,392,510	107,369	4,113,940	6,411,032	110,785	19,820,651
Equipment & Intangible Assets								
Equipment	243,845	(25,228)	28,281		27,640	79,168		353,706
Intangible Assets						48,100		48,100
Total	243,845	(25,228)	28,281		27,640	127,268		401,806
Grants								
From State Sources	9,519					253,341		262,860
From Federal Sources				2,164,523		14,864,342		17,028,865
From Other Sources						178,000		178,000
Total	9,519			2,164,523		15,295,683		17,469,725
Benefits & Claims								
To Individuals			755,694		93,881,684			94,637,378
From State Sources			143,352					143,352
From Federal Sources					(265)			(265)
STIP Distrib to Local Govts			367,634					367,635
Total			1,266,681		93,881,419			95,148,100
Transfers								
Accounting Entity Transfers	45,383		28,877		3,647,012			3,721,272
Mandatory Transfers					385,609	172,957		558,566
Total	45,383		28,877		4,032,621	172,957		4,279,838
Debt Service								
Capital Leases					3,775			3,775
Total					3,775			3,775
Total Expenditures & Transfers-Out	\$ 12,180,916	\$ 3,683,011	\$ 8,987,710	\$ 2,431,784	\$ 107,213,892	\$ 36,412,141	\$ 435,036	\$ 171,344,490
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund		\$ 115,602	\$ 653,015	\$ 23,529		\$ 365,020		\$ 1,157,166
State Special Revenue Fund	\$ 10,132,265	648,150	7,142,526	20,391	\$ 127,613	10,027,786	\$ 435,036	28,533,767
Federal Special Revenue Fund		399,492	622,991	2,387,864	9,557,582	25,895,040		38,862,969
Enterprise Fund			201,544		97,528,697	124,295		97,854,536
Internal Service Fund	2,048,651	2,519,767						4,568,418
Private Purpose Trust Fund			367,634					367,634
Total Expenditures & Transfers-Out	12,180,916	3,683,011	8,987,710	2,431,784	107,213,892	36,412,141	435,036	171,344,490
Less: Nonbudgeted Expenditures & Transfers-Out	296,831	231,241	219,618	19,648		163,315		930,653
Prior Year Expenditures & Transfers-Out Adjustments	10,023	(419,819)	160,924	1,768	(4,296)	(18,041)	415	(269,026)
Actual Budgeted Expenditures & Transfers-Out	11,874,062	3,871,589	8,607,168	2,410,368	107,218,188	36,266,867	434,621	170,682,863
Budget Authority	12,564,653	5,092,868	9,184,409	2,808,829	118,969,232	40,179,738	448,262	189,247,991
Unspent Budget Authority	\$ 690,591	\$ 1,221,279	\$ 577,241	\$ 398,461	\$ 11,751,044	\$ 3,912,871	\$ 13,641	\$ 18,565,128
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund		\$ 162	\$ 2,003			\$ 22,310		\$ 24,475
State Special Revenue Fund	\$ 636,378	280,426	455,069		\$ 5,309	306,210	\$ 13,641	1,697,033
Federal Special Revenue Fund		777,167	38,093	\$ 398,461	9,190,282	3,544,916		13,948,919
Capital Projects Fund					91,665			91,665
Enterprise Fund			82,076		2,463,788	39,435		2,585,299
Internal Service Fund	54,213	163,524						217,737
Unspent Budget Authority	\$ 690,591	\$ 1,221,279	\$ 577,241	\$ 398,461	\$ 11,751,044	\$ 3,912,871	\$ 13,641	\$ 18,565,128

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Labor and Industry

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2005

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category, which includes the General, State Special Revenue, and Federal Special Revenue Fund. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without

Notes to the Financial Schedules

adjustment. Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund. The department's General Fund financial activity receives support from the state to operate the following programs: Human Rights Commission, Silicosis Benefits and Jobs for Montana Graduates.

State Special Revenue Fund - to account for proceeds of specific revenue sources (other than private purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. Department State Special Revenue Funds include professional and occupational licensing boards, weights and measures, building codes, Uninsured Employers, Workers' Compensation Regulation, Employment Security, Contracts from PHHS, and MJTP Subgrants.

Federal Special Revenue Fund - to account for proceeds of specific federal revenue sources. Department Federal Special Revenue Funds include Employment Services, Workforce Investment Act, and Unemployment Insurance Administrative Funds.

Proprietary Fund Category

Internal Service Fund - to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include funds to accumulate and distribute indirect costs. These include the Commissioner's Office, Centralized Services-Direct Charge Fund, Business Standards Division Administrative Services Fund, and the Business Services Division Hearings Fund.

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has

decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Department Enterprise Funds include the Subsequent Injury-Trust Fund and the Unemployment Insurance Tax Benefit Fund.

Fiduciary Fund Category

Private-Purpose Trust Fund - to account for activity of all (other) trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The department's Private-Purpose Trust Fund is the Workers' Compensation Plan 1 Securities Fund.

Agency Fund - to account for resources held by the state in a custodial capacity. The department's agency fund is the Wage Collection Fund.

2. General Fund Balance

Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. In addition each agency expends cash or other assets from the statewide fund when it pays general fund obligations. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for the fiscal year ended June 30, 2004. The negative fund balance in the General Fund at June 30, 2005 does not indicate overspent appropriation authority. The department's outstanding liabilities exceed the assets the agency placed in the fund. These balances reflect activity at the agency and not the fund balance of the statewide General Fund.

3. Direct Entries to Fund Balance

During the audit period, the department had cash closing activity in the General, State Special Revenue, Federal Special Revenue, and Enterprise Funds. Included in the fiscal year 2003-04 activity in the State Special Revenue, Federal Special Revenue, and Enterprise Funds are the Unemployment Insurance Program's shared funds with Department of Revenue.

Beginning July 1, 2004, the Department of Revenue's delegated responsibility for the Unemployment Insurance Program tax

Notes to the Financial Schedules

collections was discontinued. Because of this, material direct entries of \$2.2 million in the Federal Special Revenue Fund and \$3.9 million in the Enterprise Fund were recorded to add the activity to the department's financial records and remove it from the Department of Revenue's financial records.

The \$3.4 million fiscal year 2004 direct entry to fund balance in the Private Purpose Trust Fund related to a change required by the Governmental Accounting Standards Board Statement #34. This entry changed how Worker's Compensation Plan I Securities held by the department that were received in previous years were recorded.

4. NonBudgeted Activity

The majority of the nonbudgeted activity on the fiscal year 2004-05 Schedule of Expenditures & Transfers-Out related to Unemployment Insurance Program activity. Approximately \$3.5 million is nonbudgeted expenditures recorded when an allowance for uncollectible accounts receivable was recorded. Approximately \$2.2 million relates to an expenditure recorded for the addition of the penalty and interest activity from the Department of Revenue's financial records as discussed above under direct entries to fund balance.

5. Other Expenses

On the Schedule of Total Expenditures & Transfers-Out, Other Expenses of \$5.7 million in fiscal year 2003-04 and \$9.3 million in fiscal year 2004-05 primarily relates to charging indirect costs for the departments centralized operations and licensing boards to applicable department programs. In fiscal year 2005, \$3.5 million of other expenses relates to charging expenditures when recording an allowance for bad debt expense in the Unemployment Insurance Fund as discussed under Nonbudgeted Activity.

6. Fines, Forfeits, and Settlements Revenue

On the Schedule of Total Revenue & Transfers-In for fiscal year 2004-05 the \$1.7 million of negative Fines, Forfeits, and Settlements revenue relates to recording an Allowance for Doubtful Accounts in the Unemployment Insurance Penalty and Interest Fund.

Notes to the Financial Schedules

7. Budgeted Revenues & Transfers-In Over Estimate

On the Schedule of Total Revenue & Transfers-In for fiscal year 2004-05 Contribution and Premium Revenue collections exceeded the estimate by \$11.48 million. The reasons for this relate to Unemployment Insurance collections exceeding estimates caused by increased number of employers and higher annual wage.

Department Response



Governor Brian Schweitzer

Montana

Department of Labor and Industry

Centralized Services Division

October 18, 2005

Scott Seacat
Legislative Auditor
PO Box 201705
Helena, MT 59620-1705

RECEIVED

OCT 18 2005

LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

Enclosed please find the Department of Labor and Industry's written response to the final report on the audit for the two fiscal years ending June 30, 2005.

Sincerely,

A handwritten signature in cursive script, reading "Tammy Peterson".

Tammy Peterson, Administrator
Centralized Services Division
Department of Labor and Industry

cc: Keith Kelly, Commissioner

Encl.

Recommendation #1:

We recommend the department establish procedures to:

- A. Ensure all collections are immediately logged in an appropriate receipt log.**
- B. Periodically reconcile the receipt log to deposit information.**
- C. Ensure collections are deposited in a timely manner as required by state law.**

Concur. The department has instituted procedures to log all collections into a receipt log as the collections are received, reconcile the receipt log to the deposit log on a monthly basis, and deposit collections on a daily basis.

Recommendation #2:

We recommend the department monitor documentation to ensure all licenses printed are tied to a receipt or documentation exists of why a license was printed without payment.

Concur. The department has developed procedures to reconcile on a daily basis the number of licenses printed with the number of licenses for which monies were received. The department will also reconcile the number of licenses issued with the receipt and deposit log, referenced in #1, above, on a monthly basis.

Recommendation #3:

We recommend the department:

- A. Comply with the state laws noted above.**
- B. If necessary, seek legislation to amend the laws.**

Concur.

- a. The department will propose legislation to amend §82-15-105, MCA, which will bring the petroleum dealer license transfer process into compliance.
- b. The Board of Alternative Health Care has drafted rules that implement the provisions of state law relating to professional licenses for active military reservists. The proposed rules will mimic state law.
- c. The legislature amended §37-26-403(2), MCA, during the 2005 Session. The statute no longer requires applicants to submit exam fees with the application. The Board of Alternative Health Care will request legislation to repeal §37-26-403(2), MCA, so that applicants will no longer be required to apply to the Board for authorization to take the exam.
- d. The Board of Athletics will review draft rule language regarding the qualification requirements for promoter/matchmakers and managers/trainers, and addressing suspension and revocation provisions at its December 2005 meeting. The rules will be noticed for public hearing in the first quarter of 2006.
- e. The Board of Outfitters will seek legislation to equally split the fees paid by outfitters for a net client hunting use expansion with the Department of Fish, Wildlife and Parks.
- f. The department will seek legislation to eliminate §39-51-406(6), MCA, which requires a separate bond for the Unemployment Insurance account. The department believes that current liability bonding standards are sufficient.

Recommendation #4:

We recommend the department:

- A. Continue to work with Department of Administration personnel to ensure the CMIA agreement terms are reasonable for the department's federal programs included in the agreement.**
- B. Comply with the terms of the Cash Management Improvement Act agreement.**

Concur.

The Department of Administration (DOA) changed the FY2004 Cash Management Improvement Act (CMIA) agreement without consulting with the department, even though none of the CMIA programs underwent significant changes between FY2003 and FY2004. This resulted in changes to drawing patterns that were unworkable. The department worked with DOA staff, resulting in amendments to the FY2005 and FY2006 Treasury agreements that reflect more appropriate draw patterns. The department will continue to work with DOA to ensure the department and the state can comply with the terms of future CMIA agreements.

Recommendation #5:

We recommend the department follow and periodically reevaluate policy to ensure reasonableness of the net receivable for the uninsured employer fund.

Concur.

Recommendation #6:

We recommend the department follow department and state purchasing rules and regulations for all applicable purchases.

Concur.

The department has instituted purchasing training for all department purchasing staff to prevent future violations of state purchasing policies. The department has developed a contract monitoring spreadsheet, and is working on developing a system for identifying vendors who receive payments in excess of state purchasing allowances.